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HELENA, MONTANA

VOL. XI NO. 3

OVERSIGHT COMMITTEE ON CHILDREN AND FAMILIES

Committee Prepares for Interim...The Oversight Committee on Children and Families will meet for the first time this interim on Monday, August 25 in Room 437 of the State Capitol. The meeting will begin at 8 a.m.

With all the activity at the federal and state levels in the social services arena, the Committee should have no trouble identifying a plethora of study topics and oversight issues to address. While numerous matters beg for legislative attention, staff and Committee time and money constraints will limit the number of topics slated for intensive study.

Committee to Continue Oversight Activities...With the Committee's approval, portions of each meeting will be dedicated to oversight of the Interagency Coordinating Council for State Prevention Programs' (ICC) activities. The ICC was created during the 1993 legislative session, and the membership and duties of the Council were altered in both the 1995 and 1997 sessions. The ICC is required in its enabling statute (2-15-225, MCA) to report to the Committee regarding its efforts in coordinating interagency prevention efforts that "strengthen the healthy development, well-being, and safety" of children and families. The Council must also develop and report on services that address the problems of children who are at risk of unintended pregnancy, abuse or neglect, violence and crime, and alcohol and drug abuse.

As a result of ICC's efforts, a number of VISTA volunteers are working with existing programs in Montana communities to mobilize volunteers in prevention activities for children. One plan for the Committee is to introduce members to a few of these VISTA volunteers who will share their experiences and answer questions about the program.

Senate Bill 92, passed by the 55th Legislature, requires the ICC to prepare a unified prevention budget and to develop and maintain benchmarks for prevention

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programs. Progress on these mandates will be included in the ICC's presentations to the Committee.

Other oversight activities may include updates on the Correctional Standards and Oversight Committee and reports from the new interim committee (yet to be named) recently authorized by the Legislative Council to study welfare and mental health managed care.

Committee to Select Study Topics...Some of the issues that have been discussed as possible study topics for the Committee include: the tobacco settlement, particularly as it relates to child health insurance; child health insurance in general; domestic violence; youth substance abuse prevention; adoption; teen pregnancy; and aging. Research briefs will be presented on these topics at the first meeting so the Committee can make informed decisions about which issues to focus on during the interim.

Committee to Provide Agency Forum...Several Committee members have expressed a desire to complete the interim with some tangible end-products that address specific problems, needs, or inconsistencies identified in the first few meetings. For this reason, upon the approval of the Committee, executive branch staff and other interested persons will be allotted time during the first meeting (and in subsequent meetings if the first experiment goes well) to provide the Committee with a "wish list" of items (legislation, resource guides, funding, letters, conferences, etc.) they would like the Committee to provide or to assist them in obtaining. Participants are encouraged to be brief, succinct, and specific in their requests as time will be limited. All of the individuals on the interested persons list should have received a survey asking what they need or want from the Committee this interim. Anyone who received this survey and who plans to participate in the agency forum is strongly urged to return the completed form by August 8 so responses can be collected and sent to the members before the meeting. Send any survey responses, comments, questions, or suggestions to Leanne Kurtz, Legislative Services Division, Room 138, State Capitol, Helena, MT 59620. Leanne can also be reached by phone at (406)444-3064 or via e-mail at <lekurtz@mt.gov>.

INTERIM PROPERTY TAX COMMITTEE

Committee Holds First Meeting...The Interim Property Tax Committee met on Friday, July 25 in Room 104 of the Capitol. This meeting had three principal tracks: (1) building context for the study of Montana's property tax system; (2) planning the study of the system; and (3) organizing, including the election of officers.

Those attending the meeting received a refresher on the basic provisions of Senate Bill No. 195 from the 55th legislative session (1997), i.e., the primary legislation addressing the changes in property valuations due to reappraisal. Greg Petesch, Legislative Services Division Legal Director, presented, "Property Tax Parameters", a legal memorandum providing an overview of the legal considerations

for the Committee to weigh in its examination of property taxes. Jeff Martin, LSD Research Analyst, delivered a research monograph, "Market Value and Other Issues Related to Property Taxation" that provided some historical and philosophical perspectives on the property tax. The Committee also entertained comments, ideas, and suggestions from the audience and was greeted with recommendations to: not limit the study to only Class 4, 3, and 10 property, but personal property as well; consider competitive factors (including taxes) facing the telecommunications industry; and, consider that according to some sources, Montana maintains relatively high property tax burdens. Senators Gerry Devlin and Barry "Spook" Stang and Rep. Alvin Ellis, Jr. provided their insights into the activities and conclusions of the 1995-96 Taxation Task Force.

The Committee devoted the afternoon to laying the groundwork for a 14-month study of property taxation, including alternatives to market valuation. At the end of the day, the Committee adopted five broad goals, as follows in no order of priority:

- ▶ find alternate sources of revenue for schools;
- ▶ strive for predictability and stability within the property tax system;
- ▶ educate and involve the public in the study of the Montana property tax system;
- ▶ develop a more complete understanding of taxation, including the effects of how utility restructuring may affect property taxation; and
- ▶ ascertain the viability of alternatives to market value as the benchmark for property taxation.

To Meet in September...The Committee scheduled its next meeting for Thursday evening, September 18 in Forsyth, and continuing Friday morning, September 19 in Forsyth and concluding with an afternoon/evening meeting in Billings to promote wider public involvement and participation. A more complete schedule of the Committee's meetings will be published in the September edition of *THE INTERIM* newsletter.

Officers Elected...As the final order of business, the Committee elected Senator Spook Stang as Presiding Officer and Representative Bob Story as Vice Presiding Officer.

For additional information about the July 25 meeting, the Committee, or the study of property taxation, please call Dave Bohyer at 406/444-3064 or contact Senator Stang.

LEGISLATIVE AUDIT COMMITTEE

Committee Meets in June...The Legislative Audit Committee met June 18 and 19 in Room 104 of the Capitol Building. The following reports were presented:

FINANCIAL-COMPLIANCE AUDIT REPORTS:The University of Montana - All Campuses (96-10)

This financial-compliance audit report contains the results of the audit of the University of Montana, all campuses, for the two fiscal years ending June 30, 1996. The report contains eight recommendations where the University could enhance compliance with federal regulations and state law and policies.

The first three recommendations discuss the need to improve controls over student financial aid at the University of Montana - Tech campus. The fourth recommendation discusses the Helena College of Technology's recording of construction and bond activity on the state's accounting records. The fifth recommendation addresses the need for the University of Montana - Western campus to have written contracts or agreements with other organizations. Recommendation six addresses the need for the University of Montana to establish procedures to ensure compliance with the federal Student Right-To-Know and Campus Security Act. The seventh recommendation addresses the need to establish accounting controls over the child day care service on the University of Montana - Western campus. The eighth recommendation addresses the need to improve controls over collections and deposits on the Western and Tech campuses.

An unqualified opinion was issued on the financial statements for the University of Montana - Missoula; Montana Tech of The University of Montana; and Western Montana College of the University of Montana for fiscal years 1994-95 and 1995-96. This means the reader may rely on the presented financial information. A qualified opinion was issued on the financial schedules for the Helena College of Technology of the University of Montana for fiscal year 1995-96. This means the reader should use caution when using the financial information presented.

Department of Natural Resources and Conservation (96-18)

This audit report is the result of the financial-compliance audit of the Department of Natural Resources and Conservation (DNRC) for the two fiscal years ending June 30, 1996. The Department underwent significant reorganization which was effective July 1, 1995. The former Department's Energy Division was moved to the newly created Department of Environmental Quality. All of the divisions of the former Department of State Lands, except for Reclamation, were merged with the DNRC.

This report contains five recommendations where the Department could enhance compliance with state laws and policies. The major issues discussed concern compliance with state accounting laws and policy and classification of high hazard dams.

The first four individual recommendations discuss compliance with state accounting laws and policy and include internal service fund accounting and fees, agency fund accounting for property held in trust, and nonexpendable trust fund accounting for investment and income activity.

The fifth recommendation discusses the Department's classification of a high hazard dam. It was noted in the previous audit that the Department needed to obtain operating permits for 14 dams owned by the Department. The Department obtained

permits for 13 of the 14 dams. However, instead of obtaining an operating permit for one dam, the Department reclassified the dam from a high hazard dam to a dam not considered high hazard. The change was made through an internal rule change procedure that did not follow state law. Department management concurred with the recommendations in the report.

A qualified opinion was issued on the financial schedules contained in this report. Because of the reorganization of the Department, the financial activity of the former Department of State Lands was transferred to the Department. However, land valued at \$49,398,756 recorded in the nonexpendable trust fund was omitted. As a result, the ending fund balance at June 30, 1996, in the nonexpendable trust fund is understated by this amount. Except for the omission of land, the readers may rely on the presented financial information.

Department of Environmental Quality (96-17)

This report contains the results of the financial-compliance audit of the Department of Environmental Quality for the fiscal year ending June 30, 1996. The Department commenced operations July 1, 1995, so the audit covers its first year of operations. The implementation status of several recommendations made to predecessor organizations which administered programs now included in the Department were reviewed in the audit. The Department implemented all five recommendations directed to its programs in the prior Department of State Lands audit. The Department implemented one and partially implemented one of the recommendations directed to its programs in the prior audit of the Department of Health and Environmental Sciences (DHES) for the fiscal year ending June 30, 1995.

Of three issues discussed in the DHES report for the two fiscal years ending June 30, 1994, the Department did not take corrective action to comply with federal subrecipient monitoring requirements and state statutory requirements regarding matching funds for local water pollution control facilities projects.

In fiscal year 1995-96, the Department recorded all revenue from indirect charges as federal indirect cost recoveries in the internal service fund. The impact of this error resulted in a qualified opinion on the Department's financial schedules. Department personnel corrected this error in fiscal year 1996-97.

This report contains seven recommendations. Six recommendations address issues relating to improved compliance with state laws and regulations. The other issue addresses monitoring of subrecipients of federal grant money.

Department of Fish, Wildlife and Parks (96-20)

This audit report is the result of a financial compliance audit of the Department of Fish, Wildlife and Parks for the two fiscal years ending June 30, 1996. The previous audit report contained one recommendation to the Department which has been implemented. This report contains two recommendations. The first addresses a concern with rates commensurate with costs in the internal service fund. The second recommendation addresses compliance with state meeting laws. This report also contains a disclosure issue related to accounting for vehicle expenditures.

An unqualified opinion was issued on the financial schedules contained in the report. This means the reader may rely on the presented financial information and the

supporting data on the Statewide Budgeting and Accounting System.

Department of Revenue (96-15)

This financial-compliance audit report contains the results of the audit for the two fiscal years ending June 30, 1996. The previous audit report contained 12 recommendations to the Department of which eight were implemented. Two recommendations were not implemented, one addressing the regulation of cigarette prices and the second analyzing the cost savings in shipping liquor to stores. The two remaining recommendations are no longer applicable.

The current audit report contains seven recommendations. Issues addressed in the recommendations include accounting and fund placement, property assessment procedures, compliance with state laws, and legislation to amend state law.

The first issue in the report concerns accounting for certain activity in the agency fund. Some activity would be more appropriately recorded in funds other than the agency fund. This would improve the financial disclosure of this activity and provide the users of the financial data more complete disclosure and a better understanding of the Department's operations.

The next issue discusses the Department's responsibilities for determining and assessing market value for various types or classes of property. The report contains three recommendations which address concerns regarding: (1) the valuation of agricultural lands; (2) procedures for valuing centrally assessed property; and (3) updating and verifying reality transfer certificates for residential properties.

The final issue relates to compliance with state laws or the need to seek legislation to amend state law. The report discusses transferring or depositing money in the general fund, taxation of intangible property, and the distribution methodology for the state's combined oil and gas tax.

A qualified opinion was issued on the financial schedules contained in the report. This means the reader should use caution when relying on the presented financial information or the supporting information on the Statewide Budgeting and Accounting System.

Department of Labor and Industry (96-14)

A financial-compliance audit of the Department of Labor and Industry was performed for the two fiscal years ending June 30, 1996. Of the eight prior audit recommendations, the Department implemented seven recommendations and partially implemented one recommendation.

An unqualified opinion was issued on the financial schedules which means the reader may rely on the presented financial information and the supporting data on the Statewide Budgeting and Accounting System.

This audit report contains three recommendations to the Department and one disclosure issue. The recommendations relate to compliance with unemployment insurance eligibility, the federal Cash Management Improvement Act, and federal regulations for calculating benefits. The disclosure issue relates to a state law regarding charging fees which are commensurate with costs incurred. The Department concurred with all of the recommendations.

Department of Corrections (96-16)

A financial-compliance audit of the Department of Corrections and Human Services was performed for the fiscal year ending June 30, 1995, and the Department of Corrections for the fiscal year ending June 30, 1996. The Department's human services functions were transferred to the Department of Public Health and Human Services as a result of action taken by the 1995 Legislature. Of the 21 recommendations in the previous audit report, 9 of the recommendations are partially or wholly applicable to the present Department of Corrections. The Department implemented eight and partially implemented one.

An unqualified opinion was issued on the financial schedules for each of the two years under audit. The reader may rely on the presented financial information and the supporting data on the Statewide Budgeting and Accounting System.

This audit report contains two recommendations to the Department. The first recommendation discusses options available to the Department for streamlining the foster care payment process as it relates to juveniles in the corrections system. The second recommendation discusses methods the Department can use to ensure compliance with travel regulations.

Statewide Audit (96-1)

An audit of the state's General Purpose Financial Statements was performed. An unqualified opinion on those financial statements is included in the state's Comprehensive Annual Financial Report. Copies of the report can be obtained from the Department of Administration, Accounting and Management Support Division, PO Box 200102, Helena MT 59620-0102. If you need assistance in obtaining copies please contact the Legislative Audit Division at (406)444-3122.

ELECTRONIC DATA PROCESSING FOLLOW-UP AUDIT REPORT:MSU - Bozeman General Controls Follow-up (97DP-03)

A follow-up of an EDP audit of Montana State University-Bozeman's general controls over its computerized applications was performed. The original report contained 24 recommendations. Twelve of the recommendations were implemented, eleven were partially implemented, and one was not implemented. The recommendations not fully implemented address: improving electronic access controls, establishing formal contingency procedures, and improving overall documentation.

PERFORMANCE AUDIT REPORTS:Noxious Weed Program, Department of Agriculture and Department of Transportation (96P-13)

According to statute, primary responsibility for noxious weed control is at the county level. Counties form weed management districts and develop weed management plans. The audit found a wide range of compliance with statutory weed control requirements. When resource limitations such as staff, equipment, facilities, and services, combine with differences in local commitment to statutory requirements, infestations continue to move to and from private and public land, and to and from

adjoining districts. The audit recommends that the Department of Agriculture prepare administrative rules for training district weed supervisors, weed board members, and county commissioners. Training should cover administering weed management programs and improving management practices.

Statute establishes the noxious weed trust fund, administered by the Department of Agriculture, to support noxious weed control projects. The Department's application submission, review, and approval processes are well-documented and controlled. However, the paperwork associated with applications, project monitoring, and expense tracking impacts weed district participation. The audit recommends that the Department establish procedures to assess non-participating counties to determine potential for weed control projects and continue efforts to reduce paperwork.

Statute designates district weed boards responsible for weed control on state/federal highway right-of-way if the state does not control weeds in these areas. The cost of weed control is paid by the Department of Transportation upon receipt of a district's expenses. The audit found funding distribution and expense review procedures do not increase fiscal controls or improve weed control. The audit recommends that the Department revise statute to distribute appropriated funding to districts at the beginning of each fiscal year. Districts would no longer submit invoices for reimbursement.

Lease vs. Build Analysis: State Office Space (96P-02)

This performance audit concentrated on determining whether it is less costly for the State to continue to lease or to construct a new building for office space at the Capitol Complex. The analysis included a review of current leases for office space in Helena. At the time of the review, there were 13 agencies with contracts for 38 leases. Future costs for leasing and building were estimated based on numerous assumptions. These assumptions, or variables, were used to calculate projected costs and were based on available information and reasonable judgment. The analysis assumes construction of a building on the Capitol Complex with a total space of 90,000 square feet and an occupancy level of 450 FTE. Once the assumptions and cost projections were finalized, the audit compared projected lease and construction costs using the present value life cycle cost analysis methodology. Based on the assumptions made in the report, the analysis indicates building is less costly than leasing. However, this is only one of many issues to consider when deciding whether to build or continue to lease.

Vocational Rehabilitation, Department of Public Health and Human Services (96P-04)

This performance audit presents information on the Montana Vocational Rehabilitation Program administered by the Department of Public Health and Human Services. The report focuses on the program's efficiency, effectiveness, and purchasing controls. The report contains recommendations for improvement in the administration of the Vocational Rehabilitation Program. The recommendations include clarifying and writing policies pertaining to the delivery of services to clients, increasing management information pertaining to goods and services purchased for clients, staff training, and increased organizational controls. The report also presents information

on the program, including the types of clients using the program, types of goods and services purchased for clients, and client occupations upon completion of the program. The audit concluded the program is meeting its mission of "Promoting work and independence for Montanans with disabilities." The program's efficiency and effectiveness will increase when the recommendations are implemented. By increasing the efficiency and effectiveness, the program could increase the number of clients categorized as "closed-rehabilitated, employed successfully for at least 60 days."

Montana Lottery Security, Department of Commerce (96P-01)

State law requires the Legislative Audit Division to analyze the security over Lottery operations every two years. Section 23-7-411, MCA, specifies those areas which must be reviewed during each audit. These areas include personnel security, retailer security, ticket security, building security, and computer security. Our review found controls exist in each of these areas which ensures the overall security of Lottery operations.

To Meet Again in November...The next meeting of the Legislative Audit Committee is tentatively scheduled for November 7.

LEGISLATIVE SERVICES DIVISION

LEGAL SERVICES OFFICE

Ballot measures received:

1. Limit property taxes to 1% of value (Wilverding)
2. Referendum on House Bill No. 575 (Motl)
3. Vote on tax and fee increases (Natelson)

Note: pursuant to 13-27-202(2), MCA, copies of correspondence are available through the Secretary of State.

Codification:

Preliminary codification work has been completed. Camera-ready copy for the 1997 MCA is being prepared to send to the printer. The new Codes are expected to be shipped in mid-September.

COMMITTEE ON STATE MANAGEMENT SYSTEMS

Committee Supports MT PRRIME...The 54th Legislature enacted Senate Joint Resolution 23, creating the Committee on State Management Systems. The Committee met seven times during the 1995-96 interim to provide general oversight of legacy system reengineering and the laws governing personnel, finance, and asset

management. The Committee adopted 21 recommendations, including urging the Department of Administration to hire a consultant to study and provide options for integrating the state's personnel, finance and asset management systems. This large-scale integration project, MT PRRIME (the Montana Project to Reengineer the Revenue and Information Management Environment), was, at the time, just getting underway. Through the work of a handful of task forces, the Committee articulated a number of other recommendations, all indicative of the members' recognition that information technology in state and local governments is of vital importance, and that Montana needs to get and stay abreast, if not ahead, of developments in information technology.

Since the end of the 1995-96 interim, MT PRRIME has made giant strides. A steering committee and a project team were formed and Deloitte and Touche Consulting Group was hired to outline strategies for the state to pursue in updating and integrating the state's administrative software systems. In April, the 55th Legislature approved House Bill 188, authorizing the state to sell bonds to fund technology projects, including MT PRRIME. Passage of the bill makes available \$16 million to purchase and install a commercial software package and all related hardware to support the new integrated system. MT PRRIME is a beast (albeit a friendly one) of Jules Verne-esque proportions, with tentacles reaching to every agency and every local government in the state.

Committee to Continue Work This Interim...Senate Bill 89 authorized the continuance of the Committee on State Management Systems for the 1997-98 interim. Much of the language in Senate Bill 89 is identical to Senate Joint Resolution 23. As it did last interim, the Committee will be reviewing state personnel, finance, and asset management laws--particularly as they relate to information technology--and proposing changes as necessary. Committee members will also receive regular updates on the progress of MT PRRIME, thus providing the statutorily-mandated oversight of the system integration process.

A call has gone out to information technology staff in all of Montana's executive branch agencies to bring to the Committee examples of data management projects that are new, innovative, and working well in their respective agencies. With the Committee's approval, a portion of each meeting this interim will be dedicated to an agency "show and tell" - an opportunity for legislators to see some of the creative ways that executive branch agencies are taking advantage of the advances in computer technology. These presentations should be worthwhile, since the 1995-96 Committee recognized the importance of up-to-date computer technology and the need for reliable information concerning the use of the money earmarked for data management in state agencies.

Committee to Hold First Meeting...The Committee will hold its first meeting of the 1997-98 interim on Tuesday, September 2 in Room 104 of the State Capitol. The meeting will begin at 1 p.m. Items on the agenda include election of presiding officers, review of Committee history and background, update on MT PRRIME and ITAC (the Information Technology Advisory Council), and a Committee discussion of interim goals.

Keeping a legislative eye trained on all of the Montana laws governing state personnel, finance, and asset management is just one of the charges assigned the Committee. The other requires the group to step into the dynamic and often intimidating realm of information technology. By the end of the interim, however, Committee members will be able to discuss relational databases, networking (the non-political kind), and virtual reality.

For more information on the Committee or the meeting, contact Leanne Kurtz at Legislative Services Division, (406)444-3064 or by e-mail at <lekurtz@mt.gov>.

COMMITTEE ON CORRECTIONAL STANDARDS AND OVERSIGHT

Committee Begins Work in Earnest...The Committee on Correctional Standards and Oversight held its first meeting on June 27. Senator John Harp was elected Presiding Officer and Representative Red Menahan was elected Vice Presiding Officer. Director of the Department of Corrections, Rick Day, reported on the private prison in Spur, Texas, and the Committee received a report on the RFP process for a private prison. The Committee took public testimony and heard many people voice concerns over the conditions at the private prison in Spur, Texas, in which over 250 Montana inmates are being housed through a contract with the Department of Corrections.

The Committee heard testimony on and discussed their broad authority to study corrections and how best to do so. The Committee appointed 4 separate subcommittees to study issues in greater detail: Juvenile Issues; Jail Standards; Planning and Projections; and Private Prisons, Victims, and Restitution.

Committee Selects Study Topics...The Committee continued its organizational work at its second meeting on July 25. Susan Fox from Legislative Services Division provided the Committee with a broad overview of the criminal justice system and Skip Culver of Legislative Fiscal Division provided the Committee with an overview of the Department of Corrections budget adopted by the 1997 Legislature. The Department of Corrections provided information on a Victim's Conference and on the Department representatives who will be working with each subcommittee. The Committee adopted a tentative meeting schedule for the interim and adopted respective study topics for each subcommittee. The meeting schedule is as follows:

- ▶ October 2 and 3, 1997 - Deer Lodge, tour Montana State Prison
- ▶ November 7, 1997 - Billings, tour Montana Women's Prison
- ▶ January 23, 1998 - Helena, tour Riverside Youth Correctional Facility @ Boulder
- ▶ March 5 and 6, 1998 - Great Falls, tour Cascade County Regional Correctional Facility
- ▶ May 1 and 2, 1998 - Helena
- ▶ June 19, 1998 - Helena

- ▶ August 21, 1998 - Helena - Final Meeting

Juvenile Issues Subcommittee...The Juvenile Issues Subcommittee met July 24 and heard updates on:

- ▶ future projects of the Youth Justice Advisory Council;
- ▶ the integration of the Juvenile Probation Information System into the CAPS system at DPHHS;
- ▶ DOC juvenile placement funding pilot project, hiring and plans for 5 financial specialists to assist in juvenile placement;
- ▶ interagency meetings between DOC, DPHHS, and OPI at the Division Administrator level to address cost-sharing issues;
- ▶ a juvenile sex offender treatment request for proposals to provide services until the Pine Hills sex offender treatment program is in operation;
- ▶ the imminent opening of a 16-bed secure facility for juvenile females;
- ▶ Riverside Correctional Facility in Boulder;
- ▶ information on the imminent contract between Aspen Corporation and DOC to operate all four phases of the Aspen Youth Alternatives program; and
- ▶ the future siting of a transition center for juvenile females.

Members of the Subcommittee are Rep. Ernest Bergsagel and Rep. Diana Wyatt. As study topics, the Subcommittee chose coordination of the Montana Board of Crime Control grant proposals and the Department of Corrections pilot project, juvenile detention standards, administration of juvenile corrections, and juvenile private contracts and funding.

The next Juvenile Issues Subcommittee meeting will be in mid-to-late October.

Jail Standards Subcommittee...The Jail Standards Subcommittee will be meeting in conjunction with the Montana Sheriffs and Peace Officer's Association. Their first meeting is tentatively set for October 9 and 10 in Bozeman. Members of the Subcommittee are Rep. Red Menahan and Sen. Bea McCarthy. As study topics, the Subcommittee chose coordination of the Montana Sheriffs and Peace Officers update and revision of existing county jail standards and standards for regional correctional facilities.

Planning and Projections Subcommittee...The Planning and Projections Subcommittee will have its first meeting in September. Members of the Subcommittee are Sen. Arnie Mohl and Rep. Red Menahan. As study topics, the Subcommittee chose coordination with Department of Corrections projects to develop common, user-friendly terminology for the budget process; development of a proactive plan for the development of population projection numbers for the future demand for correctional services; monitoring the development of the case management system for juvenile corrections; monitoring improvements to the Adult Correctional Information

System (ACIS); and monitoring progress of the DOC budget throughout the biennium.

Private Prisons and Programs, Victims, and Restitution Subcommittee

...The Private Prisons Subcommittee will meet for the first time September 6 in Helena. Members of the Subcommittee are Rep. Dan McGee and Sen. Chris Christiaens. As study topics, the Subcommittee chose issues with private contracts, prisons, and other programs, such as Dickens County facility in Spur, Texas; research of issues relating to victims and restitution, sentencing and parole functions, including effects of elimination of good time, treatment, special populations, and monitoring progress of several DOC requests for proposals; and review of correctional standards for state prison and private facilities.

If you are interested in being placed on the interested persons list for the Correctional Standards and Oversight Committee or for any of the subcommittees, please contact Susan Fox, Legislative Services Division, (406)444-3064 or by e-mail at <sfox@mt.gov>.

COMMITTEE ON PUBLIC EMPLOYEE RETIREMENT SYSTEMS

Committee Holds First Meeting...The Committee on Public Employee Retirement Systems (CPERS) conducted its first meeting of the interim on Thursday, July 24. Sen. Sue Bartlett is the Committee's Presiding Officer and Rep. Matt Brainard is the Committees' Vice Presiding Officer.

During the meeting, the Committee received reports providing background on Montana's 10 statewide public employee retirement plans, information about the evolution of defined benefit retirement plans generally, and summaries of activities by several other states that have examined changing their public defined benefit retirement plans to defined contribution retirement plans or a hybrid between the two plan types. An updated 1997 Legislator's Guide to Montana's Public Employee Retirement Plans was presented to the Committee and is available from the Montana Legislative Services Division.

Committee Adopts Study Plan and Meeting Schedule...Committee members discussed and adopted a study plan and a tentative meeting schedule to fulfill its two-fold responsibility of reviewing retirement proposals prior to the 1999 legislative session and of recommending changes and an implementation plan for changes to the Public Employees' Retirement System (PERS). Statutory law specifies that CPERS is to design a new or modified PERS that will improve benefit portability, provide greater plan flexibility giving plan members more choices, and continue to provide for a specified benefit in retirement.

Although subject to change, the CPERS meeting schedule envisions six more meetings. Tentative meeting dates and major agenda items for the six meetings are as follows:

October 2, 1997: selection of one or more consultants to study Montana's needs and goals, analyze options, and recommend changes to the PERS as well as an implementation plan.

February 5, 1998: formal presentation of a consultant's report identifying Montana-specific needs, characteristics, and goals, analyzing options and making recommendations; public hearing focused on the consultant's recommendations.

April 2, 1998: formal presentation of a consultant's report further analyzing and evaluating the costs of proposed changes to PERS; requests for the bill drafts to enact the changes to be recommended by CPERS to the full Legislature.

June 4, 1998: formal presentation of the consultant's recommended long-term implementation plan and schedule to enact proposed changes to PERS; public hearing to present retirement proposals for review and a CPERS report prior to introduction in the 1999 legislative session.

August 6, 1998: development of final recommendations and reports on reviewed proposals.

October 29, 1998: wrap-up and fine-tuning of the Committee's final recommendations.

The Committee's budget totals \$80,000 appropriated from the state general fund, with no more than \$60,000 being made available for consulting services.

Committee Approves RFP...Committee members discussed, revised, and approved the Request for Proposals (RFP) for consulting services. The RFP was formally issued on July 28, 1997 (i.e., the RFP was mailed to a target list of about 45 interested consulting organizations and was posted to the Internet and the State Bulletin Board System). Responses to the RFP are due to the Committee's staff by 3:00 p.m. MDT September 15. An evaluation committee appointed by the Committee Presiding Officer will score each of the proposals submitted in response to the RFP and make recommendations to the full CPERS. Finalists may be required to make scored oral presentations to CPERS at its October 2 meeting. The top consultant or consultants will be selected by October 2 and contract negotiations will commence. A contract(s) will be awarded by October 10.

Sheri Heffelfinger, the Committee's research analyst, is the project coordinator for the RFP and consulting contract(s) and the sole point of contact for all questions related to the RFP and contract award(s).

For additional information about the RFP or the activities of CPERS, contact Sheri Heffelfinger at the Legislative Services Division, (406) 444-3596.

SUBCOMMITTEE ON VETERANS' NEEDS

Subcommittee to Hold First Meeting...The Subcommittee on Veterans' Needs will conduct its first meeting on September 11. The meeting is scheduled to begin at 8 a.m. in the Recreation Hall of the Veterans' Administration Hospital at Fort Harrison near Helena.

The agenda for the September 11 meeting includes background reports and updates from the Montana Veterans' Affairs Division of the Montana Department of Military Affairs and the Senior and Long-term Care Division of the Montana Department of Public Health and Human Services. The Subcommittee will also receive a briefing on federal health care and benefit issues related to the role of the VA center at Fort Harrison. The meeting will conclude with a tour of the VA facilities and grounds at Fort Harrison.

Time has been set aside so that interested persons may bring their interests and concerns to the Subcommittee for consideration.

Subcommittee actions will include election of officers; selection of issues for further research and consideration; and review, revision, and adoption of a study plan. The draft study plan proposes a total of three meetings, with the second meeting at the Montana Veterans' Home in Columbia Falls and the third meeting in Helena.

Topics so far recommended for the Subcommittee's study generally include the following:

- ▶ the mission and role of the Montana Veterans' Home (MVH) in Columbia Falls given the current characteristics and needs of Montana's veterans and emerging trends;
- ▶ the degree to which the MVH is able and prepared to meet the needs and fulfill its mission and role, including veterans' needs related to acute alcoholism, psychiatric treatment, and the care and treatment of patients with Alzheimer's Disease;
- ▶ the need to update or clarify statutes governing questions of who is responsible for making arrangements for and paying for a deceased veteran's burial; and
- ▶ federal and state veterans' preference laws.

For more information about the Subcommittee on Veterans' Needs, contact Sheri Heffelfinger, Legislative Services Division, (406) 444-3596.

COMMITTEE ON INDIAN AFFAIRS

Committee Holds First Meeting...The Committee on Indian Affairs held its first meeting of the interim on Thursday, July 24 in Helena. Rep. Jay Stovall was elected Presiding Officer and Senator Dorothy Eck was elected Vice Presiding Officer.

Staff presented a brief history of the Committee. A committee was first established in 1977 as part of the Indian Legal Jurisdiction Project in the Governor's Office. The first actual Committee on Indian Affairs was established in 1979. Over

the years, the Committee has studied a wide variety of topics including taxation, education, alcoholism treatment, burial of ancient Indian remains, cross-deputization, cooperative agreements, economic development, social services, urban Indians, and corrections. Although the Committee has been successful in winning passage of its legislation, the Committee's main purpose is to improve state-tribal relations. This often does not require legislation but does require the Committee to listen to and communicate with both Indians and non-Indians, to work to promote understanding on both sides, and to improve people's knowledge about state and tribal governments and institutions.

Coordinator Presents Report...Wyman McDonald, Coordinator of Indian Affairs, presented a report on the work of his office since his appointment as Coordinator last July. As a policy analyst and advisor to Governor Racicot on Indian issues, Mr. McDonald has concentrated his efforts in four general areas:

- ▶ protection, preservation, and development of tribal traditions, languages, and cultures;
- ▶ exercise of tribal sovereignty and authority;
- ▶ education; and
- ▶ economic development.

In 1993, Governor Racicot issued a proclamation calling for a government-to-government relationship between the state and the Indian tribes of Montana. Mr. McDonald is now developing an action plan to make this relationship a reality and to improve the communications between the state and the tribes.

Mr. McDonald also expressed his concerns and frustrations with the Coordinator's position. He stated that the Coordinator walks a very fine line between the governor's office and the Indian tribes. While it is essential to be professionally loyal to your employer, by doing so you run the risk of losing your credibility with your own people and vice versa. To address this problem, Mr. McDonald is working on a proposal to abolish the Coordinator's position and replace it with an independent, bipartisan Commission on Indian Affairs. The commission would be made up of legislators, tribal representatives, governor's representatives, and members from the private sector. He asked the Committee's support in preparing this proposal for introduction in the next legislative session.

Committee Hears From State Agencies...Each interim, the Committee hears reports from various state agencies involved in state-tribal negotiations. Because there are so many new members on the Committee this interim, the reports also covered some of the history of the agency's involvement with tribes as well as an update on current issues.

Reserved Water Rights Compact Commission...Susan Cottingham, Program Manager for the Reserved Water Rights Compact Commission, provided the Committee with a history of the Commission. The Commission was established in 1979 and is authorized to negotiate settlements with federal agencies and Indian tribes that claim reserved water rights within the state. A federal reserved water right is a right to use

water that is implied from an act of Congress, a treaty, or an executive order establishing a tribal or federal reservation. In Montana, reserved water rights have been claimed for seven Indian reservations; for national parks, forests, and wildlife refuges; and for federally designated wild and scenic rivers. Settlements negotiated by the Commission are ratified by the Montana Legislature and the tribal councils and are approved by the appropriate federal authorities.

To date, compacts have been negotiated with the Fort Peck Tribes, the Northern Cheyenne Tribe, and the Chippewa Cree Tribe at Rocky Boy Reservation. This last compact is awaiting congressional approval. The Commission is in various stages of negotiations with the Fort Belknap Tribes, the Crow Tribe, and the Confederated Salish and Kootenai Tribes. The work of the Commission is an excellent example of what can be accomplished through negotiation and compromise.

Montana Department of Transportation...Ray Brown, Tribal Affairs Coordinator for the Montana Department of Transportation (MDT), reported that the primary issues for the MDT are tribal employment rights, environmental issues and mitigation, gravel, contractor excise taxes, and speed zones.

Two major areas of controversy are on the Confederated Salish and Kootenai Reservation and on the Fort Belknap Reservation. The MDT is currently in negotiations with the Confederated Salish and Kootenai Tribes over the reconfiguration of U.S. Highway 93. The MDT is proposing a four-lane highway while the Tribes support the continuation of a two-lane highway. The issue has become very controversial, and MDT and the Tribes hope to resolve the issue without congressional action or litigation.

On the Fort Belknap Reservation the issue is tribal employment rights. The MDT is currently performing maintenance on Montana Highway 66 that runs through the Reservation. The Fort Belknap tribes are insisting that the MDT register as an employer with the Tribes and that the MDT employees pay an employee fee to the Tribes on the project. Both MDT and the Tribes are awaiting a final order from Federal Court.

Despite these two controversial issues, Mr. Brown reported the relationship between the MDT and the Indian tribes is generally very good. There is a great opportunity for both cultures not only to coexist but to prosper and strengthen each other to the benefit of all who live in Montana. MDT recognizes this opportunity and is committed to working with the tribes.

Indian Child Welfare Specialist...Kathy Deserly, Indian Child Welfare Specialist for the Department of Public Health and Human Services (DPHHS), gave a brief history of the Indian Child Welfare Act (ICWA). The Act was passed by Congress in 1978 after findings confirmed that 25-35% of all Indian children had experienced an out-of-home placement either through foster care, adoption, or boarding school. Montana was among the states with the highest out-of-home placements. The ICWA requires states to follow certain procedures and meet certain requirements before and after an Indian child is removed from a family for foster or adoptive placement. The child's tribe must be notified of all proceedings and given the opportunity to intervene in the case or to take jurisdiction of the case.

In order to improve compliance with the ICWA, the Legislature in 1987 created the position of Indian Child Welfare Specialist, and since then the DPHHS has contracted with five of the seven reservations in Montana to operate foster care programs. In addition, an annual ICWA training conference has been held for the last eight years. New initiatives by DPHHS include:

- ▶ revising the Montana Child Abuse and Neglect (MCAN) training for new social workers by incorporating cultural sensitivity, inviting tribal social workers to participate, and using tribal social workers as trainers;
- ▶ inviting social workers to spend time with tribal social workers to better understand social service delivery on reservations; and
- ▶ providing ICWA training to judges and attorneys.

Ms. Deserly stated that by creating the position of Indian Child Welfare Specialist, Montana has recognized the state's responsibility to implement the ICWA. She is committed to giving the issues of Indian child welfare the attention they must have in a state that is home to more than 50,000 Indian people.

Gambling Control Division...Jim Oppedahl, Administrator of the Gambling Control Division of the Department of Justice, briefed the Committee on the status of gaming compacts in Montana. He reviewed the Indian Gaming Regulatory Act and how it has been implemented in Montana. The most recent compact was with the Confederated Salish and Kootenai Tribes. The lack of a compact up until just recently had resulted in the shutdown of all gambling on the Reservation. This compact brought gambling back to the Reservation.

Committee Discusses Welfare Reform...House Bill No. 2 from the recent legislative session directed the Committee to coordinate a statewide effort to improve economic development opportunities on Indian reservations in order to provide the jobs that will be required for all welfare recipients in two years. Over the next year, the Committee will work with tribal governments, tribal colleges, the Montana University System, banking institutions, private enterprise, and various state agencies involved in economic development, employment, and welfare reform to solicit ideas for presentation to the next legislative session. The goal of this statewide effort is to reduce the expenditures of the DPHHS and the Department of Corrections.

Donna Buckles of the Fort Peck Tribes presented a report on welfare reform that was recently produced by the Tribes. While the report only covered the Fort Peck Reservation, it gave the Committee a glimpse of what welfare reform means for all of Montana's reservations. The report identified lack of employment opportunities, child care, transportation, and instructional facilities on reservations as major barriers to welfare recipients seeking work. The report estimated that as many as 1500 jobs will be needed at Fort Peck to meet the requirements of welfare reform.

Committee Adopts Meeting Schedule...The Committee decided to continue visiting at least two Indian reservations an interim. Staff was directed to make

arrangements for a fall visit to the Northern Cheyenne Reservation. In addition to the meeting schedule presented by staff, the Committee requested an additional meeting in Helena in November.

For more information about the Committee or to be placed on the Committee's mailing list, please contact Connie Erickson, Legislative Services Division, (406)444-3064 or by e-mail at <cerickson@mt.gov>.

LEGISLATIVE COUNCIL

Council Meets at Yellow Bay...The Legislative Council met at the University of Montana Biological Station at Yellow Bay on Flathead Lake on July 18 and 19. The purpose of the meeting was to give the members of the Legislative Council an opportunity to explore the major challenges facing the Montana Legislature as an institution in an atmosphere of open discussion. The Council worked as a full committee and through its established subcommittees to identify and explore identified challenges. As a result of their work, a number of issues were identified for further attention by the Council and division directors:

- ▶ ways to improve basement space where permanent staff may need to be assigned;
- ▶ work with the safety committee to adopt uniform standards for legislators and staff regarding notification in the event of security problems and to assure appropriate staff are available to handle large crowds;
- ▶ revise the interim committee structure to convert existing interim committees to a fixed number of oversight committees with agreed upon jurisdiction and responsibilities; assign responsibility within their jurisdiction to review rules, agency budget development, and to study issues assigned by the legislature, eliminating the need for separate study committees;
- ▶ make full fax and e-mail services available to legislators with assistance as needed from the word processing centers;
- ▶ provide e-mail for committees;
- ▶ make voice mail available for all members;
- ▶ provide a more detailed pre-session orientation under the leadership of "sophomore" legislators;
- ▶ assign experienced legislators as mentors for newly elected members;
- ▶ adjust the rules to make House hearing notice requirements consistent with those of the Senate;
- ▶ have committee chairmen contact the sponsor of a bill before setting a hearing date and encourage setting a hearing date convenient for the sponsor;
- ▶ require large bills to have an index distributed with the bill;

- ▶ coordinate hearing schedules between the houses;
- ▶ improve training for committee chairmen;
- ▶ provide for certificates in place of formal resolutions to honor teams, schools, etc.;
- ▶ consider further how to provide a personnel officer for the branch out of existing FTE; and
- ▶ adopt a range of policies to reduce the accumulation of compensatory time in the branch.

The Council will continue to review and work on these and other issues at its next meeting set for September 12.

Committee Authorizes Welfare Study...In other business, the Council authorized a study of welfare designed to identify measures that would be needed to maintain and increase the effectiveness of the child support enforcement agency should the provisions in SB 374 not be extended in the next legislative session. Funding will be provided from the House and Senate budgets to support the cost of a temporary researcher to work with the committee.

Council Adopts NCSL Policy...The Council adopted a policy to provide official appointments to Montana legislators who wish to attend meetings of the National Conference of State Legislatures (NCSL). The Legislative Council is unable to support participation costs for members, but from time to time members ask for appointments that allow them to fully participate. Several legislators are now participating at their own request or on behalf of NCSL. They include Representatives Joe Quilici, Sonny Hanson, and Chase Hibbard as well as Senators J.D. Lynch and Fred Thomas.

COMMITTEE ON POSTSECONDARY EDUCATION POLICY AND BUDGET

Officers Elected...At its first meeting on July 24, the Joint Committee on Postsecondary Education Policy and Budget (PEPB) elected Senator Daryl Toews as Presiding Officer and Representative Ray Peck as Vice Presiding Officer. Other committee members are: Senators Mignon Waterman, Delwyn Gage, and Bea McCarthy; Representatives Don Holland, Carley Tuss, and Betty Lou Kasten; Regents Ed Jasmin and Margie Thompson; Governor's representative Erik Hanson; and student representative Kris Copenhaver-Landon.

Reports Received...The Committee received copies of prior PEPB recommendations, the postsecondary section of the 1999 Biennium Legislative Fiscal Report, and reports from the Commissioner of Higher Education on changes in the University System since fiscal year 1990, activities of the Montana Academic Forum, and the proposed university operating plan for fiscal 1998.

Other Action...In other action, the PEPB approved Committee rules, a tentative work plan for the 1999 interim, and the Committee budget. The PEPB will meet again on October 17.

REVENUE OVERSIGHT COMMITTEE

Revenue Estimating Subcommittee Holds First Meeting...The Revenue Estimating Subcommittee of the Revenue Oversight Committee held its first meeting on July 24 in Helena. The Subcommittee was created to work with the Legislative Fiscal Analyst and the Governor's Budget Office to improve working relationships between the legislative and executive branch in the formulation of revenue estimates, to facilitate the exchange of information, and to establish time lines for the development of revenue estimates (for prior coverage, see the July 1996 issue of *THE INTERIM*). Subcommittee members are Rep. Bob Story, chairman, Senators Bob Depratu, Mike Foster, Bill Wilson and Representatives Dan Harrington and Joe Tropila.

Committee staff emphasized the importance of maintaining the independence of executive branch and legislative branch revenue estimates. That independence will ensure that the Legislature will have the data and analysis it needs to make informed decisions about the economic future of the state. The Subcommittee agreed with this concept. However, members of the Subcommittee stressed that both the Legislative Fiscal Analyst and the Budget Office will have to clearly articulate any differences in the revenue forecasts. As a first step, the Subcommittee requested that both agencies present detailed descriptions of its economic models for forecasting individual income tax and corporation license tax revenues. The Subcommittee will consider the individual income tax models at its next meeting.

Terry Johnson, Legislative Fiscal Division, compared fiscal year 1997 general fund (unaudited) receipts with fiscal year 1997 estimates. Actual receipts were off by about \$5.9 million, or about 0.6% less than expected. The majority of the shortfall occurred in the smaller revenue sources. Johnson pointed out that both the Legislative Fiscal Division and the Budget Office use a variety of methods to project receipts. The Subcommittee decided it needs to spend more time on the smaller revenue sources. The smaller sources often receive little attention during the revenue estimating process.

Subcommittee Adopts Work Plan...The Subcommittee tentatively adopted a work plan for the interim. The Fiscal Analyst and the Budget Office will present to the Subcommittee:

- a schedule for the exchange of revenue estimating data and underlying assumptions;
- a formal written procedure for the receipt of historical and current revenue data from the Department of Revenue and for the receipt of information from other agencies responsible for collection of taxes, fees, and economic data; and

- a revised schedule for presentation of revenue estimates to the Revenue Oversight Committee. This item would include developing a list of outside experts to testify before the full Committee.

Other elements of the work plan include a review of the revenue estimating resolution and the development of a reference manual describing the models and other methods for forecasting revenue. The primary focus of the manual would be on the individual income tax, the corporation license tax, the property tax, and investment earnings. These sources of revenue account for over 80% of total general fund revenue. However, as noted above, the Subcommittee will spend considerable time reviewing the smaller revenue sources. The work of the Subcommittee may be accelerated if the U.S. Supreme Court finds in favor of the Crow Tribe for the refund of coal severance taxes and coal gross proceeds taxes and the Governor calls a special session to deal with the issue.

Next Meeting Scheduled for October 9...The Revenue Estimating Subcommittee will meet Thursday, October 9 at 1 p.m. in Helena. The full Revenue Oversight Committee meets Friday, October 10, at 9 a.m.

THE BACK PAGE

Senate Joint Resolution No. 19, passed by the 54th Legislature, called for an interim study of the feasibility of establishing a new type of financial institution in Montana. The foreign investment depository, as envisioned in the resolution, would be either a state-owned or state-chartered nonbank facility that would attract capital from abroad and produce revenue as well as economic development benefits for Montana. The interim study resulted in the introduction and passage of Senate Bill No. 83 by the 55th Legislature, authorizing the chartering of foreign capital depositories by the state of Montana.

This year, the Legislative Research Librarians (LRL) Section of the National Conference of State Legislatures (NCSL) established a "Notable Documents Award" to recognize excellence in documents that present substantive information to legislators and staff in outstanding formats. The LRL Section presented five awards this year. One of the winners was "An Outside Chance: Prospecting for Foreign Capital", the final report of the Subcommittee on the Foreign Investment Depository.

This month's "The Back Page" article is an excerpt from this award-winning report. For a copy of the complete report, please contact the Montana Legislative Services Division at (406)444-3064.

AN OUTSIDE CHANCE: PROSPECTING FOR FOREIGN CAPITAL

Part One: The Context

By Stephen Maly, Research Analyst
Legislative Services Division

I. An Age (and State) of Anxiety

The final 30 years of the 20th century could be labeled many things, some disturbing, some hopeful. In the realm of finance, always an important sector of the global political economy, the age of anxiety seems fitting. The 1970s began with the United States' decision to abandon reliance on gold to underpin the nation's currency and proceeded with the taxpayer-funded bailout of several large banks deemed "too big to fail". The early 1980s were marked by widespread fear that the world's banking system would collapse; later on in the decade there was the 1987 stock market crash dubbed Black Friday. In the 1990s, the Bank of Commerce and Credit International's clandestine attempt to purchase First American Bank opened a can of worms with uncommonly slimy connections to global arms traffickers and money launderers. The BCCI scandal was followed by a spate of unrelated but nonetheless serious allegations, investigations, and revelations about the shakiness of financial institutions at home and abroad. An article in *Foreign Affairs* about these and more recent events includes the following observation:

The past year witnessed three of the most dramatic financial collapses since the Third World debt crisis of 1982. The meltdown of the Mexican peso in December, 1994, the failure of the 233-year-old Barings Bank last February, and Daiwa Bank's \$1 billion loss in November--apparently at the hands of a single trader--would all seem to point to a financial system that has spun out of control.

Somewhat less startling signals of economic and financial instability emanate almost daily from the editorial pages of *The Wall Street Journal* and other voices in the international media. Reports of persistent trade deficits, the erosion of the American dollar as the world's reserve currency, and this country's degree of dependence on Middle eastern oil and Japanese bondholders lend credence to the gloomy prognostications of the doomsday industry.

In geopolitical terms, the end of the Cold War brought only temporary relief to a quarter-century of deep-seated apprehension. It has been followed by an onslaught of smaller, fiercer wars and rumors of wars to come. There is mounting evidence of central governments' inability to control events as countries splinter and electronic networks facilitate transnational webs of terror and intrigue. Many observers predict a Mexican civil war and the dissolution of Canada within the next decade or two. Hong Kong and Taiwan are major financial centers in peril. The breakup of Yugoslavia and the ensuing Balkan wars, Russia's war against Chechnya, and the looming possibility of a second Gulf War are further indications of a seeming slide toward chaos. Some of these conflicts create opportunities for profitable investments, but all of them are inimical to wealth preservation.

Even if the world isn't really coming to an end, it has witnessed of late the end of money and banking as we know it. Approximately \$2 trillion worth of financial capital is in motion, 24 hours per day. This is much more money than is required to finance international trade, and the spread between the supply of funds and the demands of commerce is explained by rampant speculation about interest rates, exchange rates, stock prices, bond markets, inflation, deflation, and derivatives. Peter Drucker has observed that 90 percent or more of the transnational economy's financial transactions do not serve what economists would consider an economic function. Money flows are triggered in large part by anticipation of political decisions (regarding government deficits, borrowings, and intervention in currency markets) and diverse assessments of political risk (such as what will happen to Hong Kong's capitalists when Communist China takes over next July). Much of this liquid capital is stateless, beyond the control of governing authorities and detached in different ways from the patriotic loyalties of the people who decides its course and ultimate destination.

While it is rational to assume that most owners of financial capital seek the highest return whenever and wherever possible, some of them are subject to irrational forces, real and imagined. Consequently, a certain number of the superrich are more interested in privacy and security than additional profit. Liquid assets have a tendency to spill into harm's way while transiting world markets; sometimes they get frozen stiff

by the heavy hand of government. There is a need for safe havens, where small fragments of huge fortunes can be brought to ground, as it were, or even literally buried in deep vaults. The list of jurisdictions offering such refuge has grown in recent years, and it includes little known places on the map such as the Isle of Man, the Republic of Palau, and the Netherlands Antilles, as well as more familiar sites like Switzerland, the Cayman Islands, the Bahamas, and Bermuda.

With respect to the influence of foreign affairs on the prospects for the Montana depository, it is important to keep in mind two easily forgotten facts. First, while dramatic and often disastrous events are taking place in places far removed from Big Sky Country and appear to have little if any effect on the way Montanans perceive the world, these same events are really happening to real people in real countries, and the consequences are neither subtle nor contained within national boundaries. The attitudes and expectations of middle-class Montanans who are immersed in the economic mainstream of the United States are going to be different from those of people who find themselves drowning in a sea of troubles. What may sound like unrealistic or even weird forecasts of catastrophe issued by obscure publicists inhabiting the fringes of society often describe what is actually going on somewhere else on the planet. This conjures up the second fact, that every prospective customer of the depository will by law be a nonresident alien.

There is increasing citizen wariness and concern about the breadth and forcefulness of federal power in America. This is true throughout the West and across much of the country. Some people believe the federal government has overreached its legitimate, constitutional prerogatives in the realm of financial regulation as well as in other sectors of the economy. These attitudes and concerns provided a backdrop to the study, which took place during what seemed a long and drawn-out season of strange activities in Montana. The (committee) members were reminded by unexpected and highly publicized events, such as the arrest of the Unabomber and the standoff between law enforcement agents and the Freemen in Jordan, that people "back East" still regard Montana as part of a wild and woolly West. . . . It did occur to several interested persons that there might be a hidden connection between a quasi-secret depository and the financial interests and needs of antigovernment militia groups operating in Montana and other parts of the Pacific Northwest. . . .

In sum, the foreign capital depository is largely a product of anxiety. The world is a dangerous place, especially for people in unstable countries who have great fortunes at risk. The distrust of governments, and especially central governments, is a worldwide phenomenon, and it contributes to the general climate of apprehension about the future. Shaky political conditions create risk and, therefore, provide an incentive to move capital to safer ground. These situations in turn influence public and private perceptions, even in relatively safe and quiet places like Montana. . . .



INTERIM CALENDAR

UNLESS OTHERWISE SPECIFIED,
ALL ROOM DESIGNATIONS ARE IN THE CAPITOL

AUGUST

August 25, Oversight Committee on Children and Families, Room 437, 8 a.m.

SEPTEMBER

September 1, Labor Day, legal holiday

September 2, Oversight Committee on State Management Systems, Room 104,
1 p.m.

September 11, Subcommittee on Veterans' Needs, V.A. Hospital, Fort Harrison,
Helena, 8 a.m.

September 12, Legislative Council, Room 104, 9 a.m.

September 18 and 19, Environmental Quality Council, Room 104, 8 a.m.

September 18 and 19, Interim Property Tax Committee, Forsyth

September 19, Interim Property Tax Committee, Billings

OCTOBER

October 2, Committee on Public Employee Retirement Systems

October 2 and 3, Committee on Correctional Standards and Oversight, Deer Lodge

October 9, Revenue Estimating Subcommittee of ROC, Room 108, 1 p.m.

October 10, Revenue Oversight Committee, Room 108, 9 a.m.

October 13, Columbus Day observed, legal holiday

October 17, Committee on Postsecondary Education Policy and Budget

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